Considerations in the Lear Corporation Former Employee Lump-Sum Offer: Financial, Tax and Estate Planning Issues and Analysis[1]

Leon C. LaBrecque, JD, CPA, CFA, CFP®

We are currently analyzing the LEAR offer for deferred vested employees and have revised this paper to include actual scenarios. We are using the IRS blended bond rate and IRS mortality, we are currently using those IRS three-segment corporate bond rates[2] as the discount rate and IRS Notice 2015-53 for the mortality assumptions. Revised copies of the paper will bear the revision date in the footer.

Introduction: The comparison of a monthly pension to a lump sum is basically a comparison of an annuity stream (the monthly pension) to the lump sum over a period of time, but involves a variety of considerations. In general, comparing an annuity stream to a lump sum is an equation involving Present Value. This calculation is based on the series of payments, the time period involved, and the rate of return. Lear will provide the retiree with a lump sum that has been actuarially computed to equal the monthly stream at a rate of interest. Retirees should note that what they currently have from Lear is an annuity. It is a lifetime annuity for the retiree. For a married retiree, it is a reduced annuity lasting for their lifetime and that of the surviving spouse. The analysis is therefore: "Which alternative is best for **me**?" Because of the personalized nature of the analysis, here are a few of the 'moving parts' or variables of the analysis, in no particular order:

1. What is the age of the retiree? (Under 59 ½, 59 ½ to 70 ½, or 70 ½ and older?[3]);
2. Marital status of the retiree?

[1] **Disclaimer:** The following information is provided to clients, friends and guests of LJPR Financial Advisors. None of the information in this White Paper is sanctioned or approved by Lear, it is our opinion, and we cite law whenever and wherever possible. Similarly, LJPR's position is that Lear retirees need to make an informed decision about the offer, rather than simply take a lump-sum and buy a financial product, or simply stay in the monthly pension when it doesn't make financial sense. The decision is not as simple as you may think, thus you need to make an informed decision and probably get several opinions. All tax laws referenced in the paper are as of the date on the footer of this document. Primarily, we are using Michigan residents in the analysis, although state law has a nominal influence on the financial outcome. Laws can and most likely will change.

[2] For payments for the first five years, the rate is 2.23%; for years 5-20, the rate is 4.83%; and for payments 20 years or later, the rate is 5.88%.

[3] Ages are relevant because of the tax rules on IRAs, the accounts to which most Lear prior employees will roll over their Lump-sun. The tax rules are covered later in the Paper.

3. What is the relative health of the retiree[4]? The spouse?
4. What is the sex of the retiree[5]? The spouse?
5. What heirs or legacy wishes does the retiree have? (Leave excess funds to children, grandchildren, charity?);
6. How important is the flexibility of withdrawals? (spouse working, spouse's pension, Social Security);
7. What income tax bracket is the retiree in, what bracket after age 70 ½[6]?
8. What is the size of the retiree's taxable estate[7]?
9. Does the retiree have dual credit bypass trusts (if married), and if so, how are they funded?
10. What is the retiree's risk tolerance[8]?
11. What is the retiree's anticipation of future inflation?
12. What is the retiree's expected future return on investments?
13. What is the retiree's investment knowledge or willingness to delegate investment management?
14. What are the retiree's other retirement income flows? (Spouse's pension, investment income, Social Security (retiree and spouse), rents, jobs, etc.);
15. What other retirement assets does the retiree have? (401(k), IRAs, Roth IRAs, Life Insurance, Annuities, and other investments);
16. What is the necessary retirement cash flow for the retiree? (E.g. living expenses, debt service, medical, etc.);

The Math: The math of the lump sum offer is simple: Lear is offering a lump sum equal to the monthly stream for your life expectancy at interest rate x%[9]. So your decision effectively boils down to: Which option is best for **you**, given your facts and circumstances? This leads to the mathematics of the calculations: How much would you get under the monthly pension payment, for how long, and what rate of return will equal those flows? What other considerations should you make?

[4] This is simply based on the difference between life and life expectancy, which is covered later in the Paper. Obviously, a Lear retiree with advanced cancer will probably have a lower actual life expectancy than the unisex life expectancy table used for calculations.

[5] Men and women biologically have different life expectancies (women live longer). In 1983, the Supreme Court in the *Norris* case (*Arizona Governing Committee for Tax Deferred Annuity and Deferred Compensation Plans et. al. v. Norris*, 103 S. Ct. 3492 (1983) ruled that all pension and Lump-sun calculations could not be sex-based, and created the requirement of a unisex table for life expectancy. In general, men live fewer years than the unisex table, and women live longer.

[6] Age 70 ½ is when Required Minimum Distributions must be made from an IRA (so possibly the 401(k) and the lump-sum). This is a critical issue in the analysis.

[7] As the law currently exists, each spouse gets $5.45M and 'portability', to total $10.90M per couple.

[8] This is a difficult-to-quantify aspect of the offer. The Lear monthly pension shifts investment risk to the Pension; the Lump-sum shifts investment risk to the retiree.

[9] As of the date of this version of the paper, we are using the following rates which have not been confirmed by Lear: payments for the first five years, the rate is 2.23%; for years 5-20, the rate is 4.83%; and for payments 20 years or later, the rate is 5.88%

A Risk Assessment: A key question is what is the risk? It should be apparent that the monthly pension from Lear is an annuity[10]. With an annuity, there are four risks that should be assessed.

1. The first is *default risk*. Default risk is the probability that Lear will default on the annuity. Given that the pension fund is not fully funded, but also that Lear has to fund the plan, and that the Pension Benefit Guaranty Corporation (PBGC[11]) insures the benefit, the risk of default is low (but clearly not zero).

2. The second risk is *market risk*. Given that the annuity stream from the Pension is fixed, the market risk is entirely shifted to the Pension.

3. A third risk is *mortality risk*. This is the risk that the retiree (and spouse) don't live long enough to collect the equivalent value from the annuity stream.

4. Another risk is *inflation risk.* This is the risk of purchasing power declining due to future inflation. Having a fixed income stream does not protect the retiree from inflation.

In short, the main risks of staying in the monthly pension are that you don't live long enough to receive the full value of your pension benefit, or that you're losing purchasing power, as a result of inflation. The risk of default is low.

If you take the lump sum, you shift the investment risk to yourself and eliminate the risk of dying before you reach your full life expectancy, however you add the risk of living beyond your calculated life expectancy.

Lear's time assumptions in the pension are based on regulated calculation assumptions, particularly that retirees and spouses live their life expectancy and that life expectancy is based on a unisex table. This creates some issues:

- Life expectancy is the age at which 50% of a cohort[12] will be deceased. Obviously, half the cohort will live longer and half will live fewer years. This is compounded by the simple observation that the Lear pension *is paid for the collective lives of the retiree and spouse, and then ends* (except in the rare and unfortunate situation where the retiree and the spouse both die before the employee contributions are recovered.) In other words, the pension ends at the death of the retiree and the surviving spouse.

- Men tend to live shorter lives than women. So in a situation where the Lear retiree is a man, married to a woman of the same age, the probability is greater that he will predecease his wife and she will receive 65% of the reduced benefit. Conversely, if the

[10] It is likely, in the opinion of the author, that Lear retirees may be offered commercial annuities as an alternative to the Pension. The author respectfully submits that Lear retirees remember that they already have an annuity with a prospective rate of return of around 4.25% (based on life expectancy tables), insured by the government (at least partially).

[11] The PBGC guarantees basic benefits, which are benefits at a normal retirement age, plus most early retirement benefits and survivor benefits. Of course, as with many government agencies (including the FDIC), the PBGC, in its annual 2015 report, reported a $76B deficit.

[12] Age group. Life expectancy is based on the probability of an age group being alive or dead at a certain point. When the mortality probability is 50% that is deemed life expectancy.

Lear retiree is a woman married to a man her age, the odds are that her husband will predecease her and she will continue to receive the same pension. Note that because of the law, both these Lear retirees would be offered identical lump sums, even though the present value of the cash flows is different.

- Life expectancy ignores the stark reality of life that some people, or their spouses, have health problems, and their actual life expectancy is dramatically shorter than the life expectancy tables. A retiree with cancer or other terminal illness may have a significantly lower actual life expectancy than a healthier individual of the same age.

Comparing Lear Pension: Rate of Return. The key factor on the lump-sum comparison is the rate of return necessary to equate the projected pension payment to the lump sum. Simply stated, you can mathematically equate the monthly Lear pension to the lump sum using life expectancy and an interest rate. In a very simple example, suppose that Tom is 65, single and receiving a Lear monthly payment of $3,210 a month. IRS Table I[13] indicates his life expectancy at 21.0 years. The present value of $3,210 a month at 5% for 21 years is $500,219. In other words, if he invested $500,219 at 5% and withdrew $3,210 a month, he would have a balance of zero in 21 years. This example also illustrates the aspect of time. If Tom had high blood pressure and high cholesterol and a history of early death in his family, he may not live 21 years. Simply stated, Lear appears to be computing the lump sum at a rate of 4.25%. This is the "hurdle rate" for analysis.

Considerations in Comparing Lump-Sum to Monthly Payments:

Survivability. A key consideration in lump sum vs. annuity payments is the concept of survivability. The Lear Pension pays the retiree and the spouse for life. Both the retiree and spouse get a reduced percentage[14] in exchange for the survivor benefit. So for example, the retiree and spouse would get 95% of the single-life lifetime benefit during the retiree's life, and the spouse would get 65% of the 95% if they survive the retiree. With a lump sum, the lump sum generates retirement income for the retiree, the spouse and heirs. So, a Lear retiree who has the option of a monthly pension needs to recognize that when both spouses die there is nothing of the pension left over. With a lump sum, there is the possibility of a balance left over upon both deaths. This is essentially the same concept as The Lear Salary 401(k) program.

For an unmarried Lear retiree, the lump sum has the opportunity to leave a portion of the financial value to children, charity or other heirs. If a widower, for example, was receiving a monthly Lear pension, was taking distributions from his 401(k) rollover, and collecting Social Security, he may opt for the lump sum in order to leave more to his daughters.

Taxation. If you take the lump sum, there may be a portion of it attributable to your contributions. These are after-tax employee contributions and may be dealt with in a variety of ways. The pre-tax portion, which is the majority of the lump-sum, has three basic options, as follows:

[13] IRS Pub 590-B.

[14] The reduction is based on the relative age of the spouse and the retiree.

- Include the lump-sum in your ordinary taxable income,
- Rollover (actually directly transfer) all or part of the taxable funds from the lump-sum to a rollover IRA, tax-free.
- If you were born before 1936, you may be eligible for special ten-year averaging, which allows you to average the lump sum as if it were the only income you received over 10 years, at 1986 rates.

Ordinary Income. Including the lump-sum in ordinary income, in most cases, will result in the lump sum being added to other income and taxed at the higher marginal rates. There are cases where full inclusion may be warranted, like in the case of significant deductible business[15] or farm losses. Including the lump-sum may have an effect on AMT[16] as well.

IRA Rollover. An IRA (or other Qualified plan[17]) rollover is a tax-free transaction, where the lump-sum remains tax-deferred until withdrawal, which is mandatory at age 70 ½, covered below. Most Lear retirees are familiar with the concept of a rollover IRA from their 401(k) account. The rules are relatively simple: to avoid any withholding taxes or income taxes on the transfer between qualified plans, the plan must directly transfer funds to the recipient plan (your IRA or other qualified plan account) within 60 days of plan distribution. This means your check from the Pension is made out to the custodian of your IRA (e.g., "Charles Schwab & Co, FBO[18] Leon LaBrecque rollover IRA"). In general, having the distribution paid to you directly will result in a 20% withholding tax and a hardship in making a tax-free rollover (because the IRS has 20% of the lump-sum). Once your lump-sum is in an IRA, it is subject to IRA taxation and distribution rules, which can be summarized into the three distinctions below (under age 59 ½, age 59 ½ to 70 ½, and over age 70 ½).

10-year Special Forward Averaging. For some retirees born before 1936[19], a special tax option exists for a lump sum distribution[20] that allows the retiree to treat the distribution as if it was the only income received over a ten year period. The tax is computed at the rates for a single taxpayer, using 1986 rates. Basically the calculation is taking one-tenth of the lump sum, computing the tax on that amount at the 1986 rates, and multiplying the result by 10. For example, if a retiree has a lump sum of $80,000, they would divide by 10 ($8,000), compute the tax at 1986 rates ($1,111) and multiply the result by 10 ($11,110). So the total tax on the lump sum of $80,000 would be $11,110. There is a special form for computing forward averaging[21]. There is also a subtle Michigan income tax advantage to 10-year averaging[22].

[15] Including Net Operating Loss (NOL) carryovers if the retiree had a business.

[16] Strangely enough, including some or all of the lump-sum in income can reduce or eliminate the AMT.

[17] So, for example, if the Lear retiree was working at another organization or had their own business with a 401(k) or other type of qualified plan, the retiree could roll the lump-sum into the other plan.

[18] "for the benefit of"

[19] Because of a drafting snafu, the correct exact term is born before January 2, 1936.

[20] A lump-sum is defined as the distribution or payment in one tax year of a plan participant's entire balance from all of the employer's qualified plans of one kind (for example, pension, profit sharing or stock –bonus plans).

[21] Form 4972. See also IRS Pub 575.

[22] Michigan taxes federal AGI, and ten-year averaging excludes the pension Lump-sum from AGI.

You must apply 10-year averaging to the entire lump-sum; you may not rollover a portion and take 10-year averaging on a portion. You also only apply 10 year averaging on the taxable portion of the lump-sum. Using 10-year forward averaging also has an interesting effect on AGI and MAGI limited deductions and credits (see below under 'Tax Flexibility: AGI floors'), since it excludes the lump sum entirely from Adjusted Gross Income on the return.

Distribution Flexibility. The monthly pension provides a consistent payment for life (or joint lives). A lump-sum has the opportunity to be turned into after-tax income (by paying the tax and possible penalty) or may be rolled into an IRA or other qualified plan. If a retiree took the lump-sum and paid the appropriate tax, they obviously would have complete flexibility in how they utilized the funds (as well as investment flexibility). Once in an IRA or qualified plan, funds may be withdrawn from the IRA under three distinct sets of tax rules:

- Pre-age 59 ½: IRA distributions are subject to income taxes and a 10% additional tax penalty, unless one of a variety of exceptions is met. These exceptions include:
    - Death
    - Disability
    - Excess medical expenses
    - Higher education
    - First home purchase (Up to $10,000)
    - Substantially Equal Payments or §72(t) (covered later in this paper)
    - Other exceptions[23]
- Age 59 ½ to age 70 ½: IRA distributions are taxable when withdrawn but may be taken when desired and in the amount desired.
- Age 70 ½+: Upon attaining age 70 ½, a retiree must generally begin taking distributions from an IRA under the Required Minimum Distribution (RMD) Rules. Basically, the balance of all IRAs (excluding Roth IRAs) as of December 31, preceding the year of RMD, is the numerator of a fraction, the denominator of which is a life expectancy number from one of three IRS tables[24].

From the rules, it is apparent that an IRA rollover has some restrictions if the retiree is under age 59 ½ and may need the money, has great flexibility between the ages of 59 ½ and 70 ½, and has a required distribution at age 70 ½. This distribution flexibility can provide significant tax and cash flow planning.

[23] For example, to pay medical premiums if you lost your job and were receiving unemployment compensation, or qualified reservist called to active duty.

[24] IRS Pub 590-B. Table I is used for beneficiaries of a deceased owner of an IRA; Table II is used if the owner is alive and the spouse is both the designated beneficiary and more than 10 years younger than the owner; and Table III used when the owner is alive and the spouse is not both the sole beneficiary and more than 10 years younger than the owner.

Example of Other Income: Mike and Tonya are both 56. Mike has retired from Lear and is offered a $700,000 lump sum on his pension. Tonya is an executive at another company and makes $200,000 a year, which is adequate to maintain their life style. Tonya intends to work until age 66. Mike could roll his lump sum into an IRA and accumulate the balance for 10 years. If he could achieve a 7.5% rate of return, his IRA would be worth about $1.44M by the time Tonya retired. They then might take 4% a year, or about $57,600 a year from the IRA to supplement other retirement income.

Example of Irregular Expenses. Albert is 60, Jean is 55. They have a son Zak, who is 18. Albert and Jean are both retired from Lear. Albert takes a $550,000 lump sum and rolls it into an IRA; Jean keeps her monthly pension. Albert uses $20,000 a year from his IRA to help pay for Zak's college. By the time Zak gets out (hopefully in four years), Albert is collecting Social Security, and Jean will be reaching age 59 ½, which would allow her to access her 401(k). They can then modify their cash flow to fit their lifestyle.

Another aspect of flexible distribution is the concept of inflation. A lump sum allows the distribution to be modified to have some form of inflation adjustment. A retiree can take some form of 'real return' withdrawal from an IRA (subject to RMD rules). So, for example, a retiree with a $700,000 lump sum in an IRA might take 4% of their balance, while making 7% on investments. Their balance would grow at 3%, thereby giving them a 3% increase (a 'COLA rider' aka inflation rider) on their retirement income[25].

Tax Flexibility. Because of distribution flexibility, with a lump-sum the retiree can achieve some degree of tax flexibility as well. The ability to take more or less from an IRA provides the opportunity to raise or lower taxable income.

Tax Flexibility: Charity. Mike has a lump sum from his pension of $700,000 (in an IRA) and $460,000 in an IRA from his 401(k). Mike has no debt and collects Social Security. In addition, he has money in the bank and about 10,000 shares of stock he bought in 2009 for $2 a share. The stock's current value is $130,000. He draws about $30,000 a year from his IRAs. He wants to make donations to a charity. He could donate $30,000 of the stock[26] to charity, either directly or through a Donor-Advised Fund[27] (DAF). He could then offset the $30,000 charitable donation with a $30,000 IRA distribution and pay zero federal income tax on the $30,000.

Tax Flexibility: Alternative Minimum Tax (AMT[28]). The AMT is a separately calculated tax designed to ensure that at least a minimum amount of tax is paid by 'high-income' taxpayers who otherwise utilize certain commonly allowed tax deductions, exemptions, losses and credits (such as the deduction for property taxes, state and local income taxes and medical expenses)

[25] This is a method frequently used in endowment spending, where the funds are supposed to last into perpetuity. The endowment spends an inflation-adjusted withdrawal each year. To preclude termination, the return is adjusted each year. For retirement, this would work fine if you had a steady rate of return, but would be problematic in zero or negative years.

[26] Donating appreciated property would avoid the taxation on the capital gain on the stock.

[27] For an explanation of DAFs, click here.

[28] AMT is technically misnamed, since it is actually an "Alternate 'Maximum' Tax". The tax adds back-taxes paid and deducted (like property or state income taxes) and personal exemptions, as well as certain "tax preference items" and applies a flat rate. The taxpayer pays the greater of their regular tax or the AMT. See IRS Topic 556.

to reduce their regular income tax. The AMT is payable to the extent it exceeds your regular tax liability, and is payable in addition to your regular tax liability. This dual calculation of tax creates a paradox in planning in that increasing total income can increase your regular tax and reduce or eliminate your AMT. As an example, George is retired from Lear and had dual lumps sums from his pension and 401(k). Susan, his wife is an executive and their collective income is $250,000. They pay AMT because they deduct significant property and state income taxes[29]. They analyze their tax situation and discover if they increase their overall income they can shift away from the AMT[30]. If they have a lump-sum rollover available in an IRA and are over 59½, they may be able to withdraw enough from the IRA to reduce or eliminate the AMT.

Tax Flexibility: Michigan Income Tax. Depending on the retiree's age, pensions may be taxed for State of Michigan income tax purposes. In general, retirees born before 1946 may exclude their Social Security and up to $49,811 (single) or $99,623[31] (married filing joint) of pension income from their taxable income for Michigan purposes. Taxpayers born between 1946 and 1952 may exclude their Social Security and up to $20,000 (single) or $40,000 (joint) of pension income from Michigan taxable income. Taxpayers born after 1952 cannot exclude any pension income, but can exclude Social Security. When a taxpayer born after 1952 reaches age 67, they may elect to either exclude up to $20,000 (single) or $40,000 (joint) of Social Security and pension income, or exempt Social Security income. Having a lump sum allows the flexibility of taking or not taking an IRA distribution in a specific year after age 67.

Tax Flexibility: Itemized Floors. Certain itemized deductions have "floors" based on Adjusted Gross Income (AGI). For example, medical deductions[32] are subject to a "floor" of 10% of AGI (7 ½% if you or your spouse are 65 or older in 2016). For 2017 and beyond, the floor is scheduled to be 10% for all taxpayers. For a Lear retiree, the medical expense will include the Medicare B premium, plus any additional insurance cost out-of pocket, plus any actual expenses. Taking the pension in a lump sum allows the Lear retiree to "time" income and maximize the deduction. For example, suppose Bryan and Kristal have some excessive medical expense (dental implants) that created out-of-pocket costs of $8,000, plus Medicare B and medical increase costs and other itemized medical deductions of $3,200. They would have $11,200 of medical deductions, limited by 7½% (or 10%) of AGI. If they weren't taking a

[29] Property and state income taxes are two deductions allowed for regular tax and not AMT that commonly cause many taxpayers to get trapped by the AMT.

[30] The AMT is the excess of the tentative minimum tax (TMT) over the regular tax liability and must be paid in addition to the regular tax liability. The calculation of TMT starts with a determination of one's alternative minimum taxable income (AMTI), which is regular taxable income recomputed taking into account various adjustments and preferences. An annually changing exemption amount dependent on your filing status (subject to inflationary adjustments) is subtracted from AMTI. For 2016 the AMD exemption is $53,900 (single) and $83,000 (joint). A 26% tax rate is applied to a portion of AMTI in excess of the exemption amount and a 28% tax rate is applied to the remainder. Between certain AMTI ranges the benefits of the lower 26% rate are phase out such that some AMTI is taxed at 26%, 32.5% and 35% before getting to the 'maximum' 28% AMT rate. Net long-term capital gains and qualified dividends are taxed at 15% under both regular tax and AMT. A variety of credits (recomputed foreign tax credit for example) are then applied to arrive at the TMT. In general, regular income taxed at 35% (and subject to AMT tax rate of 28%) can 'reduce' the AMT significantly. It does so by increasing the regular tax faster than the TMT. The increase in regular tax may surprise people 'reducing' their AMT. Model carefully.

[31] 2015 numbers. (2016 not available at time of publication)

[32] IRS Pub 502.

monthly pension, presuming they have sufficient other means of living, they could reduce or eliminate a withdrawal from their IRA and increase the deduction. So if they would have been receiving $35,000 of Lear pension, having a lump sum and managing the cash flow might increase the deduction by $2,625 if subject to 7 ½% ($3,500 for those subject to the 10% floor). Other itemized floors include casualty losses[33] and miscellaneous itemized deductions[34] like investment expenses (including management fees), job hunting expenses, employee business expense, safe deposit rental, tax preparation, etc.

Tax Flexibility: AGI Limited Credits and Deductions. There are a significant number of deductions and credits that are limited by Adjusted Gross Income (AGI). For Lear retirees on the threshold of those income levels, being able to manage or modify the AGI by reducing or stopping withdrawals can have a positive and significant effect. Examples of tax-significant items subject to AGI limits include:

- Taxation of Social Security is based on Modified Adjusted Gross Income (MAGI)[35].
- Medicare Part B premiums are based on MAGI[36].
- Medicare D premiums are based on AGI[37]
- The college tuition deduction, student loan interest, Hope credit and lifetime learning credits are all based on AGI limits[38].
- Roth IRAs have a MAGI limit for contributions[39].
- Charitable contributions have an AGI limit[40]. This is an inverse situation where the flexibility of a lump sum may enhance the ability to make charitable contributions. For example, if a Lear retiree wants to make a large gift (say $50,000), they can take sufficient income from their lump sum rollover to boost AGI and get the deduction.
- The Child Tax Credit[41] is subject to an MAGI limit.
- The Child and Dependent Care Credit[42] is subject to MAGI limitations.

[33] 10% of AGI floor. See IRS Topic 515.

[34] 2% of AGI floor

[35] Social Security is not taxed if MAGI is below $25,000 (single) or $32,000 (joint). Social Security is partially taxed as MAGI increases. MAGI is AGI plus one-half the social security benefit. See IRS Pub 915.

[36] For 2016, the Part B standard premium is $121.80 ($104.90 if you are currently enrolled). Based on MAGI, there are four additional brackets which increase the premium to as high as $389.80 a month.

[37] For 2016, the Part D (prescription drug) starts at the Plan premium (generally under $85,000 for an individual or $170,000 for a married couple). Based on MAGI, there are four additional brackets which increase the drug premium to as high as $72.90 per month.

[38] IRS Pub 970.

[39] For 2016, the MAGI limit for Roth contributions is $117,000 -$132,000 (single) and $184,000 - $194,000 (joint)

[40] In general, 50% of AGI, depending on the type of charitable organization. Certain organizations and assets may be subject to either a 30% or 20% limitation as well. IRS Pub 526.

[41] IRS Pub 972.

[42] IRS Pub 503.

So the ability to manage income allows a retiree on the threshold of a certain income level to change their income for positive tax results, whether it may be keeping income below the threshold for college deductions and costs, or managing income to change the Medicare B (and Medicare D) premiums in specific years.

Tax Flexibility: Bracket Topping. Bracket topping means to increase income to the edge of the tax bracket without going over ("topping it off"). Lear retirees with significant IRA balances from a 401(k) rollover will, because of the RMD calculation, usually be in a progressively higher tax bracket as they age[43]. Having withdrawal flexibility allows the retiree to 'top off' their bracket. For example, John and Mary have taxable income of $52,000, putting them in the 15% bracket. The 15% bracket on taxable income for 2016 for married filing joint tops out at $75,300. They could take IRA distributions of up to $23,300 and stay in the 15% bracket. This will reduce the IRA balances, and the prospective RMDs at higher brackets. Note it is irrelevant whether the IRA is from the pension lump sum or the 401(k).

Topping off is very useful in making a Roth IRA conversion. A Roth IRA is a tax-free IRA, discussed below. Here a retiree can utilize the unused bracket amount to convert a portion of their rollover IRA to a tax-free Roth IRA. If we looked at the preceding example, in lieu of taking the additional $23,300 of bracket amount as a distribution, they could convert $23,300 into a Roth. This allows them to make a series of conversions to a Roth. See below for a full discussion of Roth conversions.

Required Minimum Distribution (RMD) Issues. As previously indicated, having a lump sum in an IRA (for that matter, any taxable IRA, including a 401(k) rollover) creates a requirement at age 70½ to take the RMD. In general, the RMD starts at about 3.65% of the portfolio balance and gets larger over time. For example, at 80 the RMD is about 5.35%, and at 90, the RMD is 8.77%. The obvious problem is that the RMDs can cause the taxable income to progressively increase while age increases. Take, for example, a couple with $1,000,000 in IRA balances. Suppose they make 7% on their IRA investments. At age 70½ their required minimum distribution would be $36,496. Because the rate of return (7%) is greater than the distribution, the IRA grows to $1,033,504[44]. In the next year, when the owner is 71½, the RMD rises to $39,000. This continues, so in the year the owner is 80, the RMD is $69,615, and by age 90, the RMD is $117,744 (at which point the money is spent on taxes, eyeglasses, and doctors).

On the IRA owner's death, the surviving spouse can roll the inherited IRA into their own, but the spouse is subject to their own RMD rules[45]. If the IRA owner dies and leaves the IRA to a designated beneficiary other than the spouse, the designated beneficiary must take the distributions over either their life expectancy or the owner's life expectancy (whichever is longer).

[43] This is because the RMD calculation is based on the 12/31 balance from the previous year divided by the life expectancy, which obviously gets lower as you age.

[44] Assumes RMD is taken at the end of the year.

[45] See IRS Pub 590-B.

Roth Conversions[46]. A consideration with a rollover IRA is the opportunity of a Roth conversion. A Roth IRA has the following features:

- Qualifying distributions from a Roth are free from income taxes;
- Roth IRAs are not subject to minimum distributions rules (you do not have to take distributions at 70½);
- When you die, your spouse may roll your Roth into their Roth tax-free;
- If a Roth is left to a non-spouse beneficiary, that beneficiary may take distributions over their life expectancy, tax-free[47].

How a Roth conversion works. To convert a taxable IRA (like a rollover) to a Roth, you have to transfer the taxable IRA to a Roth, and pay income taxes on the taxable portion of the conversion. If an IRA contains after-tax funds, those funds are attributed to the conversion pro-rata with no added tax on the conversion. You may convert some or all of a taxable IRA to a Roth[48]. Mathematically for a Roth conversion to be advantageous, the taxes on the conversion should be paid with funds other than the IRA[49].

Recharacterization. Roth conversions may be recharacterized up to the extended due date of the tax return. A recharacterization is like a "mulligan" in golf and allows you to send the Roth back to the traditional IRA it came from without tax consequences from the original Roth conversion. For example, suppose Emily decides she wants to take some of the stock in her 401(k) rollover and convert that to a Roth[50]. When she does the conversion, the stock is $11.50 a share. She converts in 2016, which means she'll owe tax on the value of the stock on the day of conversion. She has until October 15, 2017, to send the Roth back. Suppose on October 12, 2017, the stock is now $10. Rather than pay the tax on the Roth conversion, Emily would be better off recharacterizing the Roth. She would have no tax on the conversion. If, on the other hand, the stock went up to $15, Emily would probably keep it in the Roth and enjoy the $3.50 tax-free gain and tax-free dividends and distributions, provided she meets the rules for a qualified distribution. Recharacterization allows you to take a "second look" at the conversion (albeit for a relatively short period of time). Note that if you recharacterize, you may convert again (so Emily could send her stock back to the Roth and try again). The "re-conversion" rules say you must wait until the longer of the year after the conversion or 30 days from the recharacterization. So in our example, if Emily converted in 2016, and recharacterized

[46] For a comprehensive White Paper on Roth Conversion, click here.

[47] This would allow a retiree to leave a Roth (and hence a tax-free investment stream) to grandchildren or other heirs with long life expectancies.

[48] In our firm, we sometimes recommend segregating the converted amount to a separate IRA prior to conversion to make any possible recharacterization easier. So if a Lear retiree was going to convert $40,000 from a 401(k) rollover that totaled $500,000, we would set up a separate $40,000 IRA and then convert that. If later we wished to recharacterize, we could then send the Roth back to the $40,000 IRA.

[49] You can use IRA funds to pay the taxes on the conversion, but you have effectively performed the same relative function as a distribution. Paying the taxes from outside funds makes the Roth more efficient by having more funds growing tax free.

[50] You can move IRA assets directly into a Roth; so if you have individual shares of stock or ABC mutual fund in your traditional IRA, you can move those assets into the Roth.

on October 12, 2017, she could re-convert the stock in the IRA to a Roth on November 13, 2017 (after 30 days had passed).

Qualifying Distribution. In order for a Roth distribution to be tax-free to the owner, certain conditions must be met:

- The distribution must be made after a 5-year period beginning with the taxable year the Roth was established; and
- The distribution is:
  - Made on or after the date you turn 59½, or
  - Made on account of your disability, or
  - Made on account of your death, or
  - Made under the first home purchase exception (up to $10,000)

In addition to Roth conversion from a traditional IRA, Roth IRAs may also be funded through contributions. A contributory Roth has the same distribution rules, and additionally allows the penalty and tax-free withdrawal of contributions tax-free at any time or age under the First-in, First-out (FIFO) method.

Roth conversions shrink future RMDs. Roth IRAs are not subject to RMD rules, and accordingly, converting part of a rollover IRA to a Roth will reduce the future income tax on the RMD. Another issue frequently overlooked is that with couples, the RMD is applied to the couple when both are alive at the lower joint rates. When one spouse dies and the other rolls the decedent's IRA into theirs, the subsequent RMDs are taxed to the survivor at the higher single rates. A Roth conversion may be rolled into a spousal Roth with no tax and no RMD requirements.

Estate Tax Ramifications of Roth Conversion. For 2016, the Estate tax exclusion limit is $5.45M per estate with the provision of "portability"[51] between spouses to make the exclusion $10.90M. Roth conversions provide an estate planning opportunity by shrinking the estate by the income taxes paid on the conversion. For example, suppose Jim and Judy have a total estate of $12.15M, including $1.2M in IRAs that consist of a rollover of the lump-sum and the taxable portion of the 401(k). They convert, over a period of years (to manage their tax bracket), $500K into Roths, and pay during the course of those conversions $150K of taxes, shrinking their taxable estate to $12M[52].

Recognize that in the case of married retirees, there is an unlimited marital deduction in the estate tax for spousal transfers. In the case of a married retiree, who takes the lump sum, rolls

[51] The Tax Reform Act of 2010 for the first time enacted the rule of portability, which allows a surviving spouse to use a predeceased spouse's unused applicable exclusion amount, effectively doubling the amount that a married couple can pass to their beneficiaries tax-free.

[52] This is presuming they spend or gift any appreciation on the IRAs.

it over into an IRA, and names the spouse as the primary beneficiary[53], there is no estate tax on the first death. On the second death, if the surviving spouse names a secondary beneficiary that is not a spouse, like a child, then the portion is included in the second spouse's taxable estate.

Investment Changes and the Lump-Sum. Lear Retirees considering the lump-sum should note that replacing the monthly annuity with a lump-sum changes the investment dynamics and the variability of cash flow. Lear retirees that do not take the lump sum typically would have the following sources of retirement income:

- Lear monthly pension;
- Possible Retiree monthly Social Security benefit;
- Possible Retiree spouse monthly Social Security benefit;
- Possible RMD from 401(k) rollover and other IRAs; and
- Other investment income.

Of these flows, the certainty of the flow is a relevant issue. The variability of the monthly pension flow is extremely low, close to zero. In other words, a monthly pension retiree has an extremely high degree of certainty in getting a flow for their entire life, and if they are married, income to the surviving spouse for their entire life. The Lear Pension is assuming all investment risk associated with that flow. If a retiree takes the lump-sum, they have assumed the investment risk.

Default Risk of Monthly Pension. The default risk on the monthly pension is very low. There are three levels of funding:

1. The Pension Plan itself. The pension obligations of Lear[54] are about $528 million.
2. Lear US LLC is liable for the plans from a funding standpoint.
3. The Pension Benefit Guaranty Corporation (PBGC). The PBGC is a federal agency that guarantees pension payments in the event of a plan termination. If Lear had severe financial difficulties and terminated the plan and sent it to the PBGC, the maximum PBGC guarantees for 2016 for a 65 year old would be $5,011.36 per month[55].

There are few comparable investments that have as low default risk as a monthly pension insured by the PBGC. Investing in a balanced portfolio has risk of market declines. Investing in

[53] Conventional planning wisdom is to typically name the spouse as the primary beneficiary, since the surviving spouse may roll over a deceased spouse's IRA into a spousal IRA. This provides the surviving spouse with flexibility of their own IRA. For taxable estates, this technique is typically modified to provide estate equalization.

[54] This number reflects Lear US LLC audited financials on 12/31/2014.

[55] To see the guarantees for other ages and other forms of payout see the PBGC website.

corporate bonds or real estate poses risk of default or interest rate risk[56]. The closest investment parameters to replicate the cash flows of the Lear monthly pension would be:

1. A 'ladder' of government bonds[57], maturing in sequence to replicate the cash flows of the monthly pension[58].

2. A commercial Single Premium Immediate Annuity (SPIA) is an insurance product that replicates the cash flows of a pension. SPIAs have flexibility in designing the flows to have guaranteed payment periods[59], refund features, and other features as well.

Example of Replicating the Monthly Pension Annuity with Bonds. At the time of this paper[60], Treasury instruments were paying substantially low rates. For example, the rates as of 11/03/2016[61] on select treasuries were as follows:

1 yr.	0.64%
2 yr.	0.81%
3 yr.	0.98%
5 yr.	1.26%
7 yr.	1.58%
10 yr.	1.82%
20 yr.	2.25%
30 yr.	2.60%

From the foregoing, the current rate on a ladder of treasuries is about 2%. This means that a $480,000 lump sum, to replicate a safe, consistent payout for a 64 year old (using IRS Table I[62], life expectancy 21.8 years) would deliver a $2,265 per month flow, compared to $3,145 from the Lear pension[63].

Example of Replicating the Monthly Pension with a Commercial Annuity. Another method of replication, which may provide virtually identical cash flow, is a Single Premium Immediate

[56] Interest rate risk is the risk of a fixed rate instrument declining when interest rates rise.

[57] For example, this may be a ladder of zero-coupon treasury instruments maturing every year, in the amount of the Pension payments, so if the Lear retiree had $36,000 per year in payments, the retiree would need to buy zero coupons to mature to $36,000 per year.

[58] The author is presuming, for purposes of argument, that the US Treasury is as safe as the combination of the Lear Pension Plan, Lear and the PBGC.

[59] Called a "Period Certain".

[60] November, 2016.

[61] Source: US Department of Treasury.

[62] IRS Pub 590-B, Appendix B, Table I.

[63] This example is based on a Lear retiree (active, not retiree), age 63, with Lump-sum and monthly pension.

Annuity (SPIA). SPIAs may have a variety of payout features, including refund features for a period of time[64]. At the time of this Paper, a rate on a SPIA for a 64-year old with a lump sum of $480,000 would have a lifetime annuity of about $2,808[65] per month.

Modifying Asset Allocation. Retirees who do take the lump sum who aren't specifically interested in replicating the cash flows from the monthly pension may want to consider modifying their asset allocation of all qualified monies. From the previous discussion, the lump sum may be effectively viewed as either a bond ladder or a SPIA, and thus constitutes a fixed income component of the retirement portfolio. For example, suppose a 64 year old retiree has a lump-sum offer of $480,000, and has a 401(k) rollover of $680,000, which is invested by him in a moderate mix of 55% equities and 45% bonds. This retiree may consider his retirement portfolio has the risk level of a 55/45 portfolio, but in reality, the retiree's portfolio, if he takes the monthly pension, is closer to 32% equities and 68% fixed (because the lump sum is in a bond equivalent, the total is $786,000 of a total portfolio of $1,160,000 fixed and $374,000 of $1,160,000 equity). If the retiree adopts his previous allocation (which he may want to do), he changes the risk[66] of their overall retirement monies by 127 basis points or 12.70%.

Balanced Portfolios. The Pension invests its funds in a balanced portfolio. Pension funds have the benefit of a virtually infinite time horizon and as such can have a more aggressive asset allocation. This must be a consideration for retirees. Throughout history, overly conservative portfolios have failed to provide an inflation adjusted withdrawal[67]. An option for retirees is to take qualified monies (lump-sum and 401(k)) and invest those in a qualified portfolio similar to an institutional portfolio. This may mean a more aggressive allocation than the retiree may have had in their 401(k) alone.

Loads and Fees*.* Of course, virtually all Lear Pension retirees will be inundated with offers of counseling, help and solutions for their lump-sum decision. An important consideration in determining the course of action should include assessing the loads and fees of financial products being offered, as well as 'product biases' by advisors and salespersons. Replacing the monthly pension with a SPIA with a lower monthly payment, or being promised of 'guaranteed' rates on real estate investment trusts (REITs) of 8-9% should make most rational retirees go out and seek second or third opinions.

Types of Loads and Fees. There are a plethora of costs associated with financial products, and, retires should recognize that all fees and loads are paid by the investor, despite any indications to the contrary. These fees and loads will diminish returns. If a mutual fund has a 5% front-end load, the investor starts with $0.95 on the dollar and has to make 5.26% just to break

[64] For example, you can purchase a SPIA with a 10 or 20-year certain period, which will pay the annuity for that period irrespective of the condition of the annuitant. So on a 10 year certain you get a monthly annuity for the longer of your life or ten years.

[65] From Annuity Quickquote.com, using a 64 year old male in MI, with a $480,000 Lump-sum, shopped on 09/19/2016. We have no affiliation with any annuity or product provider and actually don't generally recommend annuities.

[66] Risk is generally measured by standard deviation, which quantifies the variation the returns on a portfolio.

[67] For example, the Trinity studies, *Retirement Savings: Choosing a Withdrawal Rate That Is Sustainable* By Philip L. Cooley, Carl M. Hubbard and Daniel T. Walz, demonstrate that concentrations of bonds more than 50% result in significantly higher failure rates over time.

even. If an investment has a surrender charge, the investor is stuck if they don't like or don't need the investment, and must 'pay to leave'. Here is a synopsis of some of the various types of loads and fees:

- *Front loads or commissions.* In mutual funds, these would be called 'A' shares and represent a sales commission paid upon purchase. Front loads on mutual funds can range to about 8%. In mutual fund 'families' the loads are only applied once on intra-family transfers[68]. On limited partnerships, the load is typically buried in the prospectus, but can be up to 8%.

- *Back loads or surrender charges*. In mutual funds, these are typically called 'B' shares, and in annuities are called surrender charges. The surrender charges are typically applied on a graded basis, so the surrender charges proportionally decline as time goes by. Investors do not typically incur surrender charges on intra-fund family or intra annuity fund changes. B loads may normally run from 7%, declining yearly to zero (so a 7-year surrender, although many funds have shorter times and lower charges). Annuities have a range of surrender charges, some as high as 15%, and as long as 15 years.

- *12(b)-1 fees.* These are ongoing charges, usually called 'C' loads and are imposed to pay for fund expenses (which include marketing). These typically range from 0.25% to 1.0%, and are imposed in addition to management fees.

- *Management fees*. There are management fees imposed on investments (with the general exception of individual bonds or stocks), that are typically charged through a mutual fund. Management fees for mutual funds are typically reported as 'investment expense ratio'. For funds, this can range from as low as 0.1% to over 2.0%. Independent advisors frequently charge a management fee that may be imposed on assets under management (AUM). These typically range from 0.3% to over 1.5%, depending on the level of assets. Brokers sometimes charge a 'wrap' fee, where no commissions are charged, but a 'wrap' fee of 1-3% is charged to the accounts.

- *Administrative Expenses.* These are expenses charged by variable annuities to cover the costs of mailing and administration, and may range from 0.10% - 0.30% of the policy.

- *Mortality Expenses (M&E).* These are the charges in an annuity to provide a death benefit, and can range from about 0.50% to 1.50% of the policy value per year.

All in all, fees on investment portfolios can range from very low (by using index-type no-load investments) to over 3% in the case of some forms of annuities. Fees make a difference, high fees can outweigh the benefits of an investment product and diminish returns.

Inflation Risk. 2016 is a low-inflation/low-interest environment. However, Lear retirees should also weigh their opinion of future inflation. The monthly pension is not indexed for any cost of living increases. The pension basically stays the same throughout the payment stream,

[68] So, an investor moving amongst all A load fund in a family of mutual funds would not recur the A share load.

so a retiree receiving $3,700 per month in 2016, would only have the purchasing power of $2,754 in ten years if inflation was 3%, and have purchasing power of $2,049 in twenty years. Inflation from 1926 to 2016 has run at about 3%, but the United States has had some significant inflationary periods. The monthly pension is not protected against inflation; a lump sum can at least be invested to provide some inflation protection through inflation indexed securities[69] and/or equities and hard assets.

A retiree that locks in an investment for a long period (e.g., 30-year treasuries, or a SPIA), also locks out inflation protection. Retirees should consider how inflation factors into their planning.

Interest Rates. As indicated above, the 2016 interest rate environment is very low. Lear retirees taking the lump sum should consider providing enough flexibility to be able to shift into higher rate instruments if rates rise. This may include keeping a portion in short term bonds, 'laddering' bonds or CDs, or not purchasing one exclusive product that locks up cash flows for an extended period.

Estate Planning. Whatever option the retiree chooses may have an effect on the retiree's estate plan. For those that have a current estate plan in place, it is recommended that it be reviewed to see if changes are needed. For those that do not have an estate plan it is a good time to establish one. The goal of the plan is to clearly state their wishes about how assets are to be distributed upon death, and reflect the appropriate estate/tax planning to coincide with the option the Lear retiree has taken regarding his or her pension. For those that opt for the lump-sum payout having an estate plan in place is critical, especially if you want to leave remaining assets to your heirs while minimizing estate taxes, avoiding probate, and making the settlement of your estate as simple as possible for your heirs. Everyone needs a Will and Powers of Attorney for both health care and financial needs. A Trust is also crucial for most (especially retirees taking the lump sum). The type of Trust and the complexity, however, depends upon your individual circumstances. Retirees with significant sums in IRAs may want to consider the use of an IRA trust, particularly for non-spouse beneficiaries. An inherited IRA (e.g., to the children) is subject to creditor claims[70] and gives the heirs unlimited withdrawal opportunity[71]. An IRA trust can provide asset protection and discipline to the beneficiaries.

Conclusion.

This Paper has touched on a variety of issues related to the decision between the monthly pension and a lump-sum. Hopefully the reader will use this information to make an informed decision about the offer. For some recipients, the lump-sum will provide additional flexibility and survivability that will enhance family wealth. For others, keeping the monthly pension provides a safe, determinable income stream that gives a low-risk retirement income flow, to be supplemented by the 401(k) and other investments. In any event, the decision is a complex

[69] For example, Treasury Inflation-Protected Securities or TIPS, which are Treasury securities that change the principal value of the security with inflation. See TIPS.

[70] The Supreme Court has ruled that inherited IRAs are subject to the claims of the creditors of the beneficiaries (Clark v. Rameker).

[71] Non-spouse beneficiaries can generally withdraw over their life expectancy (e.g. 'stretch' IRA). However, they MAY take the distributions sooner. An IRA trust can provide an intervening Trustee to control the distribution.

one, and unique to each individual. In other words, your mileage may vary. Make an informed decision and get a second opinion.   Best wishes on your choice. Attached are Appendices 1: a worksheet for analysis, and 2: the author's version of cohorts that have general selection decisions.

About Leon LaBrecque:

For Leon LaBrecque, who has been featured in media outlets like InvestmentNews, CNBC, USA Today and Forbes, reducing uncertainty is a theme that runs throughout his professional life. As a practicing attorney, CPA, CFP® and CFA, he is an educator at heart, and has a passion for helping others fully understand their financial lives.   Additionally, Leon is the managing partner and founder of LJPR Financial Advisors, a firm managing over $653 million* in assets.

After growing up in Hazel Park, Michigan, graduating magna cum laude from University of Detroit Mercy with degrees in accounting and law, he grew his wealth management firm, LJPR Financial Advisors, from the ground up with a foundation in financial education. LaBrecque brings to the table a sense of humor and a catalog of life experiences that allow him to deeply connect with his clients and understand their individual needs.
In pursuit of reducing uncertainty and elevating financial literacy through the use of brains, passion and courage, LaBrecque launched LJPR Pride, the financial education arm of his firm that serves all demographics. LJPR hosts several financial education seminars per year and LaBrecque regularly speaks at local schools and businesses about smart financial choices.

LaBrecque serves as Trustee for the Hazel Park Promise Zone, advisor to the Sustainability Institute of Detroit, and is a member of the Sherriff's and Municipal Memorial Assistance Response Team, among other community roles. Leon joined the MICPA Board on September 1, 2016 and is eager to increase financial literacy across the state of Michigan. He has authored several books and proprietary financial programs for General Motors, Ford Motor Company, AT&T and numerous law enforcement organizations.

*As of 8-31-16

About LJPR Financial Advisors:

LJPR Financial Advisors is a fee-only financial advisor and wealth management firm that specializes in retirement planning, investment management, estate planning and tax planning. We have been providing financial services to our clients for over 20 years and our staff of professionals offers a diverse and complete range of services that we believe is unmatched in the area. As a registered investment advisor we provide fee-only financial and investment advice and we do not receive commissions. Our team of highly experienced financial experts can help you plan your finances for all of life's stages: retirement planning, investing your IRA, college funding, managing debt, health care, long-term care and estate planning.

How to contact us:

LJPRFA can be contacted at: info@ljpr.com or 248.641.7400. We can provide an independent review of the Lear lump-sum. In general, our reviews will require the information from

Appendix A, and some form of consultative communication, either live, by phone, Skype, or e-mail.

My Lump Sum Decision Worksheet

For a complimentary assessment of your Lear lump sum or monthly pension offer please fill out the following worksheet and **email to**: info@ljpr.com, **mail to:** LJPR Financial Advisors, 5480 Corporate Drive, #100, Troy, MI 48098 or **fax to:** 248.641.7405.

Name: ____

Address: ____________________________________ City:______________________

State:______ ZIP: _________

Email Address: ____

Phone Number: Cell: _________________________________ Home:

____

1. Amount of the lump sum offer: _________________
2. Monthly Lear Pension:
   a. Pre 62 (include supplements) _________________
   b. Post 62 to former employee _________________
   c. Surviving spouse benefit _________________
3. Age of the former employee? _______ Sex: *M F* Age of spouse? ________
4. Marital status of the former employee? *M S W(widowed) D(Divorced)*
5. What is the relative health of the former employee?
   a. Excellent health, longevity in family. *Former Employee Spouse*
   b. Good health, no serious health conditions, normal height/weight. *Former Employee Spouse*
   c. Average-to-fair health, meds, height/weight abnormal. *Former Employee Spouse*
   d. Poor health, prior or current medical conditions. *Former Employee Spouse*
6. Estimated life expectancy age former employee? _______ The spouse?_______
7. Which statement most effectively sums up the former employee's wishes regarding a legacy:
   a. I need to take care of me (or my spouse and me) only;
   b. I would like to leave whatever I (or my spouse and I) don't use up to heirs;
   c. I want to live off the interest and leave the principal and growth to heirs;
   d. It is very important to me to leave a legacy to heirs.
8. Which statement most effectively sums up the former employee's view on flexibility of withdrawals?
   a. I want my retirement income to be certain;
   b. I want some of my retirement income to be certain, but would like some income I can modify to my needs;
   c. I am comfortable with my other sources of retirement income, like my spouse's pension and social security;
   d. I want control over my assets and income flow as much as possible.
9. What income tax bracket is the former employee in currently? _________________
10. What bracket after age 70½? _________________

11. What is the size of the former employee's taxable estate? [This would be the sum of all assets, including IRAs and life insurance (unless owned by an Irrevocable Life Insurance Trust), minus liabilities]
    a. Under $1M;
    b. Between $1M and $2M;
    c. Between $2M and $5M;
    d. Over $5M.
12. Which statement most effectively sums up the former employee's risk tolerance?
    a. I am conservative. I like a lot of money in the bank, CDs, or safe investments. I hate negative numbers on my statements.
    b. I am moderately conservative. I understand markets go up and down, but I prefer some of the ups and less of the downs.
    c. I am moderate. I think of my retirement investments as pensions and feel they should be invested like a pension plan in a mix of assets globally. My balance goes up and down.
    d. I am aggressive. I think that equities and alternate investment are the only effective ways to make money, and I willingly assume the risk of loss.
13. Which statement accurately reflects the former employee's attitude about inflation?
    a. I am not concerned about inflation: I want safety of principal.
    b. I am somewhat concerned about inflation, but I am more concerned about safety of principal.
    c. Inflation will be a modest problem in the future.
    d. I am concerned about inflation and its detrimental effect on my retirement.
14. Which statement accurate reflects the former employee's attitude about interest rates?
    a. I'm happy to make 2-3% in retirement;
    b. I think interest rates will probably go up in the future;
    c. I think interest rates will probably go up in the future, and I can then capitalize on those higher rates;
    d. I think interest rates will clearly go higher in the future and I want the flexibility to lock in the higher rates later.
15. Which statement most effectively sums up the former employee's investment knowledge or willingness to delegate investment management?
    a. I am not very knowledgeable about investments;
    b. I have some knowledge of investments;
    c. I am reasonably knowledgeable about investments, or I have an advisor I trust;
    d. I am quite knowledgeable about investments, or I have an advisor I trust.
16. What are the former employee's other (non-Lear pension) monthly retirement income flows?
    a. Spouse's pension __________________
    b. Former employee's Social Security __________________
    c. Spouse's Social Security __________________
    d. Investment income (non IRAs) __________________
    e. Rents, jobs, other __________________
    f. Balance of other IRAs __________________
17. What is the necessary retirement cash flow for the former employee? (e.g., living expense, debt service, medical) __________________

An advisor will call you to review your options. If you are uncomfortable completing this worksheet and sending it to us, please feel free to give us a call at 248.641.7400.

Appendix B
General Decision Groups

The following are a general observation of certain age/situational cohorts that would benefit from the lump-sum or the monthly pension.

Health:
Poor health: Lump-sum
Good health, family longevity: monthly pension

Age:
Under 59 ½, need the money, probably monthly pension
Between 59 ½ -70 ½: Lump sum (for flexibility)
Over 70 ½: Possible RMD considerations, if IRA Rollover. If born before 01/02/36, consider 10-year forward averaging.

Sex:
Male: Benefits more from Lump sum (shorter life expectancy)
Female: Benefits more from monthly pension (longer life expectancy)

Importance of flexibility of withdrawals:
Important to be flexible: Lump sum (caution RMD considerations)
Stable income more important: monthly pension

Roth IRA
Desire and use Roth and Roth conversions: Lump sum
Roth irrelevant: Monthly Pension

Survivability:
Healthy spouse, children, legacy desired: Lump sum
Legacy irrelevant: monthly pension

Estate taxes:
Subject to estate tax: monthly pension
Not subject to estate tax: Lump sum

Investment philosophy:
Conservative: monthly pension
Moderate: Lump sum

Investment expertise:
No expertise (not delegation): monthly pension
Expertise (or delegation): Lump sum

Inflation outlook:
No/low inflation: monthly pension
Inflation: Lump sum